

At the recent Executive Summit sponsored by the Missouri Credit Union Association, a panel discussion was held on the advantages of being state versus federally chartered. The comments below summarize those points made by Chief Examiner Cindy Taylor in favor of a state charter.

### ***Why Choose a Missouri Charter***

***Philosophically***, a state charter is the best choice since the Division of Credit Unions is the only entity that is involved solely for the membership. Your state regulator -

- a. Is not selling anything. There is no financial motive as vendors have;
- b. Has no membership structure to support as the League does;
- c. Has no contract to protect as the auditors do;
- d. Has no insurance fund to protect as does NCUA;
- e. Does not need to be invited to the credit union;
- f. Does not need to please credit union management or officials.

The sole purpose of the state regulator is to protect the funds of the citizens of Missouri – your membership. This alone is cause to be a state chartered credit union.

***Practically*** speaking, there are several reasons to choose a state charter:

**Annual Fee** – Whether you are \$1 million, \$100 million, or \$1 billion in assets, the examination fee for a Missouri chartered credit union is less than the cost of a federal charter. Yet your examiners receive the same training as the federal examiners, have the same equipment, utilize the same software, and participate in the same examination program. A state charter is simply a better value.

**Power** – There are approximately a dozen federally chartered credit unions in Missouri. There are nearly 160 state charters. You can choose to be one of 12 or one of 160 – the old premise of ‘he with the most voices wins’ is still generally true. If dual chartering fails in Missouri or across the United States, how much power do you think you will have with just one regulator?

**Innovation** often begins at the state level. Share drafts, real estate lending, credit card lending, and modernization of statutes have all begun at the state level. If you want to be creative, be state chartered.

**Flexibility** – Each of you is unique. One of the reasons you can be unique is the fact that your state regulator can permit it. Some have customized bylaws where whole sections have been revised to be relevant to your specific operation. Others have arranged changes in the format of the examination report to make a situation more palatable to your officials. All of this is possible because the Division of Credit Unions has a manageable number of credit unions to oversee and can provide examiners with the

flexibility to individualize reports. With 10,000 credit unions and 500 examiners, NCUA cannot permit the degree of flexibility offered by the Missouri Division of Credit Unions.

**Ease of Communication** – How many of you have picked up the phone and called John P. Smith or David Bohrer? It's very simple --- just dial the Division and ask for the Director or Deputy Director. There are not a lot of layers of bureaucracy.

Because of the ease of communication, credit unions have had direct input into the regulations under which you operate. The CUSO rule is a perfect example. In addition, Director Smith holds meetings annually in various parts of the state so that every credit union has the opportunity to speak with him one-on-one to voice concerns or discuss issues facing state chartered credit unions.

The National Association of State Credit Union Supervisors (NASCUS) also provides a means for state chartered credit unions to work with state regulators. On a national level, the regulated and regulator work together to better the dual chartering system and to address issues facing state chartered credit unions. One concern at NASCUS is 'multiple jurisdictions.' Efforts are being made so credit unions can more readily operate in multiple states.

One discussion that hopefully you have not seen is the one behind the scenes between NCUA and Division examiners. Although federal and state examiners generally have the same concerns and agree on the action needed, there are occasions when the state examiner will come to the defense of the credit union, explaining why a situation exists or conveying the history of a specific situation. If there is only one regulator, who will stand up for you?

**Peer Review** – As an accredited state with NASCUS, the Missouri Division of Credit Unions periodically receives a peer review from other state regulators. Peers review all the policies and procedures of the Division. The other regulators then share what we are doing well and what areas need to be improved. Such a review can only make us a more efficient, better run entity.

**The Numbers** favor a state charter. Through 6/30/04, Missouri credit unions had a cost of funds of 1.63% versus federally insured and federally chartered credit unions across the nation at 1.5%. In an environment where every basis point counts, this is quite favorable to the member.

One of the reasons Missouri can return more to the membership is because of fee income. Missouri credit unions gain almost 20% of total income through fees. This is nearly double the federally insured and federally chartered. This reflects an atmosphere where members are accustomed to paying for services. This could be important if Unrealized Business Income Tax (UBIT) becomes a reality in Missouri.

Missouri credit unions have 2.5% of total assets in fixed assets (land and buildings). By comparison, federally chartered credit unions are less than 2% and federally insured

credit unions have only 1% in fixed assets. This reflects the flexibility Missouri credit unions have to build branches where management deems necessary.

Also, the federal usury rate is 18%. For consumer loans, Missouri credit unions can generally charge whatever is agreed upon between the member and the credit union. For those who are participating in risk-based pricing or sub-prime lending, the higher interest rate could be important.

**Field of Membership** - One area where Missouri falls short is in membership growth. This reflects the cumbersome nature of the current field of membership expansions. However, there are a few points to remember:

1. Groups of less than 3000 need only be approved by the director and published in the Missouri Register.
2. Low income and underserved areas also require only the approval of the director and publication in the Missouri Register.
3. Credit unions may expand into the approved areas even when the membership expansion has been appealed.
4. The current situation is the result of a statute ---- statutes can (and will) be changed.

**Taxation** is always a hot topic. At a recent conference, discussions on taxation were numerous. Finally, one regulator who deals with banks as well as credit unions made a point:

“If a bank pays much tax, we know they need a new CFO.”

Yes, taxation would be different. Yes, taxation would be a bother. But ... ‘thinking out of the box’ is a large part of the answer.

**Cost** – One credit union (\$100 million in assets) recently determined that it costs an additional \$50,000 - \$100,000 annually to be state chartered. This is primarily due to franchise and state sales taxes. This is certainly a considerable amount of money. However, how much are the intangibles worth?

### **Making the Decision**

Whether to be state or federally chartered is a business decision each credit union must make. In answering the question of which charter to choose, a credit union must ask –

- How much is state governance worth?
  - How much is it worth to have access to those enacting revisions to the statutes under which you operate?
- How much is local supervision worth?
  - How much is it worth to have a director who understands the state’s economy?
  - How much is it worth to have a director who understands the economics of your specific sponsor?

- How much is it worth to have a director who knows the physical location of where you want to build a branch?
- How much is it worth to have a director who knows the specific competition you're dealing with?

In my book, a state charter is by far the best value.